

Northwestern Medical Center Mid-Year Rate Increase Request

FY2020 has been a challenging year, primarily driven by a net revenue variance resulting from the continued impact of a new Electronic Health Record implemented in our outpatient physician practices in May of 2019, and by significant overages in temporary patient care staffing costs and self-insured health claims. The variance in health claims is partly due to the natural variation that occurs within a self-insured plan, and can be impacted through plan design alterations that are currently being considered. Health claims are being handled through other strategies and so, are not included as part of this rate request.

To offset the negative impacts of the reduced physician practice and related ancillary volumes, and the increased cost of temporary patient care staff, we are requesting a rate increase of 14.9%, effective May 1, 2019.

Description	Dollars	Rate Request
EMR Impact on Volumes	7,038,199	11.5%
Temporary Patient Care Staff	2,029,598	3.3%
Total (Annualized)	9,067,797	14.9%
Annual Value of 1% Rate Change	610,112	

EMR Impact on Volumes:

The greatest impacts of the new EMR have been felt in our Primary Care practices where the workflows have become more time consuming. To a lesser extent, this has occurred throughout the specialty practices. Since volume reductions in specialty practices result in fewer volumes in surgical services, these smaller impacts within the specialty practices have a disproportionate impact on overall revenue. Nearly \$4.0 million of the \$7.0 million variance comes from reduced orthopedic volumes and another \$1.25 million is coming from General Surgery, Urology and OB/GYN. Primary Care (including pediatrics) accounts for \$1.25 million as well. There is no “quick fix” to bring volumes back up to previous levels so we are requesting 11.5% of the 14.9% total request to offset the negative impact to the organization.

Temporary Patient Care Staff

The vast majority of the temporary patient care staff (travelers) that we have utilized this year are Registered Nurses, with occasional usage of Respiratory Therapists, and Radiology Technicians. The budgeted cost for these services in FY2020 is \$300,000 and we are currently projecting to spend over \$2.3 million. This level of temporary staffing is unprecedented in our organization and is a symptom of the critical nursing shortage that we are currently experiencing nationwide. Traveler expense by fiscal year is shown in the chart below.

Fiscal Year	Traveler Expense
FY2016	\$ 412,287
FY2017	\$ 203,907
FY2018	\$ 385,938
FY2019	\$ 690,800
Projected 2020	\$ 2,329,829

We continue to invest in nurse recruitment and nurse training, as evidenced by our partnership with Vermont Technical College to hold nursing courses in St. Albans in space owned by NMC.

Expense Reduction and Operational Efficiency

We take our responsibility to our community, in terms of patient care, but also in terms of accessibility, which includes affordability, very seriously. We are proud to be a low cost provider and have regularly included data showing that NMC is one of two significant outliers in terms of having low annual rate increases over the past 8 years. While our current financial situation dictates that we must step away from this achievement to some extent, it does not require us to use rates alone to improve our financial sustainability. We continue to have an obligation to our community to provide the best care that we can in an affordable way and to ensure that that care is accessible to everyone. For this reason, the requested rate increase is only part of a larger plan to return the organization to a position of financial stability. If the Green Mountain Care Board were to approve the entire request and no other action was taken to reduce costs, NMC would still be facing a negative operating margin in FY2021. Alterations to our self-insured health plan were mentioned in the introduction as one example of the broader plan that is in place. We are actively reviewing service lines, administrative structure, and community partnership opportunities to ensure that vital services can continue to be available in our community, even if not provided by NMC. We will be submitted a budget for FY2021 in a few short months which will contain the impact of many of these initiatives. We look forward to discussing these initiatives with the Green Mountain Care Board in more detail in the future.

Required Under Appendix I

	A	B	C	D	
Gross Charges by Payer	FY2020 Budget - Approved	FY2020 Projection (As of Feb)	FY2020 Budget - Mid Year Request	Annualized - Mid Year Request	Percentage Increase (Column D to B)
<i>Acute (Hospital Based)</i>					
Commercial, Self-Pay, Other	\$ 69,098,909	\$ 66,385,132	\$ 71,754,924	\$ 79,272,632.74	19.4%
Medicaid	33,749,790	34,632,857	37,434,777	41,357,465	19.4%
Medicare	61,859,634	62,679,166	67,749,810	74,848,712	19.4%
Workers Comp	3,979,143	4,240,258	4,583,779	5,064,708	19.4%
Total Acute	168,687,476	167,937,413	181,523,290	200,543,518	19.4%
<i>Ambulatory (Physician Practice and Clinic, includes PBB)</i>					
Commercial, Self-Pay, Other	24,059,918	23,751,449	23,751,449	23,751,449	0.0%
Medicaid	12,362,045	13,426,947	13,426,947	13,426,947	0.0%
Medicare	17,353,032	12,321,117	12,321,117	12,321,117	0.0%
Workers Comp	1,287,473	1,350,949	1,350,949	1,350,949	0.0%
Total Ambulatory	55,062,468	50,850,462	50,850,462	50,850,462	0.0%
<i>Total Acute and Ambulatory</i>					
Commercial, Self-Pay, Other	93,158,827	90,136,581	95,506,373	103,024,082	14.3%
Medicaid	46,111,835	48,059,804	50,861,724	54,784,412	14.0%
Medicare	79,212,666	75,000,283	80,070,927	87,169,829	16.2%
Workers Comp	5,266,616	5,591,207	5,934,728	6,415,657	14.7%
Grand Total	\$ 223,749,944	\$ 218,787,875	\$ 232,373,752	\$ 251,393,980	14.9%

Net Revenue by Payer	FY2020 Budget - Approved	FY2020 Projection (As of Feb)	FY2020 Budget - Mid Year Request	Annualized - Mid Year Request
<i>Total Acute and Ambulatory</i>				
Commercial, Self-Pay, Other	\$ 54,146,674	\$ 48,967,741	\$ 52,271,184	\$ 56,896,004.20
Medicaid	21,434,726	18,586,459	18,590,637	18,596,486
Medicare	37,415,915	36,261,411	36,457,039	36,730,918
Workers Comp	3,929,264	4,627,114	4,902,114	5,287,114
Grand Total	\$ 116,926,579	\$ 108,442,725	\$ 112,220,974	\$ 117,510,523

Collection Rates by Payer	FY2020 Budget - Approved	FY2020 Projection (As of Feb)	FY2020 Budget - Mid Year Request	Annualized - Mid Year Request
<i>Total Acute and Ambulatory</i>				
Commercial, Self-Pay, Other	58.12%	54.33%	54.73%	55.23%
Medicaid	46.48%	38.67%	36.55%	33.94%
Medicare	47.23%	48.35%	45.53%	42.14%
Workers Comp	74.61%	82.76%	82.60%	82.41%
Grand Total	52.26%	49.57%	48.29%	46.74%

Gross Charges by Payer

The requested 14.9% rate increase will not be applied equally across all charges. Ancillary charges will receive an increase of 19.5% while Ambulatory charges will not be adjusted. The overall average impact experienced by each payer is a function of that payer's relative mix between ancillary and acute charges. As shown in the table above, Medicare will experience an overall average rate increase of 16.2% while all other payers will experience a rate increase below the requested 14.9% because Medicare constitutes a disproportionately high portion of the acute revenue relative to the ancillary revenue.

Contractual Allowances by Payer

The table above shows collection rate by payer for the FY2020 budget, FY2020 projected and the expected rates (partial year and full year) that would result from the requested rate increase. There are a couple of differences that stand out:

- 1) Commercial, Self-Pay, Other: The overall collection rate is coming in well below budget. These payers make up a higher percentage of the Ambulatory revenue than they do the Ancillary revenue (43.7% vs 41.0%). The reduction in volumes within the surgical physician practices ultimately impacts this overall collection rate. When fewer commercial patients are being referred to surgery which generates larger charges at a high percent-of-charge reimbursement, then the lower reimbursement rate services (those paid by fee schedule) weigh more heavily in the overall collection rate calculation. There are no indications that this will be materially improved in the near-term, so the current year to date collection rate has been applied in all forward looking calculations.
- 2) Medicaid: The collection rate observed in FY2020 is far below the budgeted rate (38.67% vs 46.48%). The budget assumed that we would break even on the risk portion of the all payer model agreement with OneCare Vermont. Much of this variance is related to the negative performance in that program and to the increased fees which run through Net Patient Revenue as an offset to the fixed prospective payments. This program is dynamic and is continuously being assessed internally and externally. Adjustments to this rate may be made in future budget submissions as more information is available.

Medicare and Medicaid collection rates decrease as gross charges increase since the net payment is fixed and not related to pricing. When additional net revenue is generated in these categories through a price increase, it is the result of patients who are classified as Medicare patients having secondary coverage that does pay based on a percent of charge. Workers Comp is a relatively small portion of total revenue and is known to have swings in collection rate. The most currently observed collection rate has been used in this analysis.

Contact Information for Staff

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